



# NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

**FOR IMMEDIATE RELEASE**  
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## **TREASURER ANGELIDES RELEASES STATE'S 2003 DEBT AFFORDABILITY REPORT, CALLS ON GOVERNOR-ELECT AND LAWMAKERS TO CUT STATE'S DEBT AND AVOID RECKLESS DEFICIT BORROWING**

SACRAMENTO, CA – State Treasurer Phil Angelides today urged Gov.-elect Arnold Schwarzenegger to take advantage of the “extraordinary opportunity” presented by the soon-to-be-convened special legislative session, by “proposing budget-balancing measures to reduce the unprecedented amount of deficit borrowing approved in this year’s budget package and to avoid, at all costs, the reckless path of increased, massive deficit borrowing.”

Angelides’ recommendations were included in the 2003 edition of the State’s annually required Debt Affordability Report released today. The release of the document, “California at the Fiscal Crossroads: Cutting Our Debt and Building Our Future,” comes amid reports that the incoming Schwarzenegger administration might seek voter approval for a \$20 billion-plus deficit borrowing plan.

In the cover letter to the report – addressed to Schwarzenegger, Gov. Gray Davis, Senate President pro Tempore John Burton and Assembly Speaker Herb Wesson – the Treasurer expressed his view that the State has already authorized deficit bonds “at a level beyond what is fiscally prudent.” Angelides noted that the current deficit borrowing plan, used to balance the 2003-04 budget and close the fiscal year 2002-03 operating deficit, already “constitutes the largest borrowing package of its kind in state history and seriously threatens our ability to restore the fiscal integrity so vital to our State’s sustained economic success in the 21<sup>st</sup> Century.”

Before voters are asked to approve even more deficit borrowing that will require “future generations to pay for today’s debt,” Angelides wrote, “good fiscal practice and common sense dictate that every effort be made to reduce, by as much as possible, the amount of deficit bonds used to balance this year’s budget.”

“It is fiscally responsible for the State to prudently borrow to invest in our future – in schools, transportation, clean water and parks,” Angelides said. “It is quite another thing to borrow simply to roll over debt and unfairly burden our children and grandchildren with the cost.”

The Treasurer’s Office has estimated that a \$20 billion deficit bond, financed over 30 years, would cost \$39.75 billion in principal and interest over the life of the bonds – an average of \$3,457 for each California household.

Last month, the Treasurer recommended that Schwarzenegger develop a “Plan B” approach to balancing the State’s 2003-04 budget, in the event that an estimated \$11.7 billion in legislatively authorized bonds – whose proceeds are needed to help balance the budget – fail to clear legal challenges. Today, the Treasurer went a step further, urging Schwarzenegger “to reduce to the greatest extent possible the amount of deficit borrowing” included in the 2003-04 budget package – even if the bonds clear these legal hurdles – and even if the bond package is submitted to the voters.

The Debt Affordability Report outlines the serious, negative ramifications of massive deficit borrowing. They include:

- The borrowings come with great costs to California taxpayers. Even the currently approved deficit borrowing plan would cost each California household on average \$1,076 over the next five years. Every tax dollar spent on paying off this debt is one tax dollar not spent on critical programs like education and public safety.
- When the proposed issuance of the approximately \$11 billion in Fiscal Recovery Bonds is considered as part of the State’s total bonded indebtedness, the resulting \$2.1 billion in annual debt service would increase the State’s overall ratio of debt service to General Fund revenues by over 2.9 percent, from its current moderate level of approximately 3.6 percent projected for fiscal year 2003-04, to nearly 6.5 percent – well beyond the 6.0 percent that is widely considered within the bounds of fiscal prudence. The Treasurer pointed out that this ratio does not even include the normal general obligation and lease revenue bonds anticipated to be issued in fiscal year 2004-05 and beyond.
- California will attempt to issue an unprecedented \$19.5 billion in state bonds in fiscal year 2003-04, including the currently approved deficit bonds. This amount is approximately three times the highest amount of general obligation and lease revenue bonds ever issued by the State in a single year, severely testing the market capacity for our bonds. This deficit borrowing threatens to crowd out cost-effective borrowing for critical infrastructure projects of lasting value.
- All three credit rating agencies have cited the continued structural budget imbalance as the most significant negative factor currently contributing to California’s position as the State with the lowest credit ratings in the nation. Continued deficit borrowing does nothing to correct this imbalance and to put the State back on the path to restoring its credit ratings. Indeed, reliance on these bonds puts in jeopardy the State’s delicate fiscal balance and cash position for fiscal year 2003-04 and prolongs fiscal uncertainty, which has a negative impact on the State’s ability to effectively maintain access to the capital markets for both its cash management needs and long-term infrastructure investments.

“Unless we reverse our course,” Angelides said, “California could find itself in a situation akin to that of New York City in the 1970s, when financial institutions and investors retreated to the sidelines, refusing to extend credit and financing to the City.”

“The time has come,” the Treasurer added, “to put our fiscal house in order, so we can turn our attention to building our future – educating our children, improving our infrastructure and strengthening our economy.”

(Note: The 2003 Debt Affordability Report is available on the Treasurer’s Office website, [www.treasurer.ca.gov](http://www.treasurer.ca.gov))

## State of California 2003-04 General Fund Budget Package

|                                                 | Amounts (\$ in millions) <sup>1</sup> | Percent of Budget Gap Solutions <sup>2</sup> | Percent of Total Spending <sup>3</sup> |
|-------------------------------------------------|---------------------------------------|----------------------------------------------|----------------------------------------|
| <b>Budget Gap / Total Spending</b>              | <b>n.a.</b>                           | <b>\$39,415</b>                              | <b>\$71,100</b>                        |
| Internal Borrowing                              | \$445                                 | 1.13%                                        | 0.63%                                  |
| Fund Shifts                                     | \$2,155                               | 5.47%                                        | 3.03%                                  |
| <b>Total Internal Borrowing and Fund Shifts</b> | <b>\$2,600</b>                        | <b>6.60%</b>                                 | <b>3.66%</b>                           |
| Tobacco Securitization Bonds                    | \$2,000                               | 5.07%                                        | 2.81%                                  |
| Pension Obligation Bonds                        | \$1,900                               | 4.82%                                        | 2.67%                                  |
| Fiscal Recovery Bonds                           | \$10,700                              | 27.15%                                       | 15.05%                                 |
| <b>Total External Borrowing</b>                 | <b>\$14,600</b>                       | <b>37.04%</b>                                | <b>20.53%</b>                          |
| <b>Total – All Borrowing and Fund Shifts</b>    | <b>\$17,200</b>                       | <b>43.64%</b>                                | <b>24.19%</b>                          |

<sup>1</sup> Amounts represent approximate net proceeds to the General Fund, at the time of budget enactment. In the case of external borrowing, the par amount of bonds issued will be higher, to account for costs of issuance, reserves and related expenses. The estimated total par amount of bonds for the \$14.6 billion of net proceeds shown above is approximately \$15.2 billion. This would put the total amount of borrowing and fund shifts at \$17.8 billion, as estimated at the time of budget enactment. Subsequent events have and will affect the actual par amount of bonds issued.

<sup>2</sup> Budget gap solutions are those identified to close the two-year budget gap and increase reserves; \$39.415 billion figure was calculated by the Department of Finance as of enactment of the fiscal year 2003-04 budget.

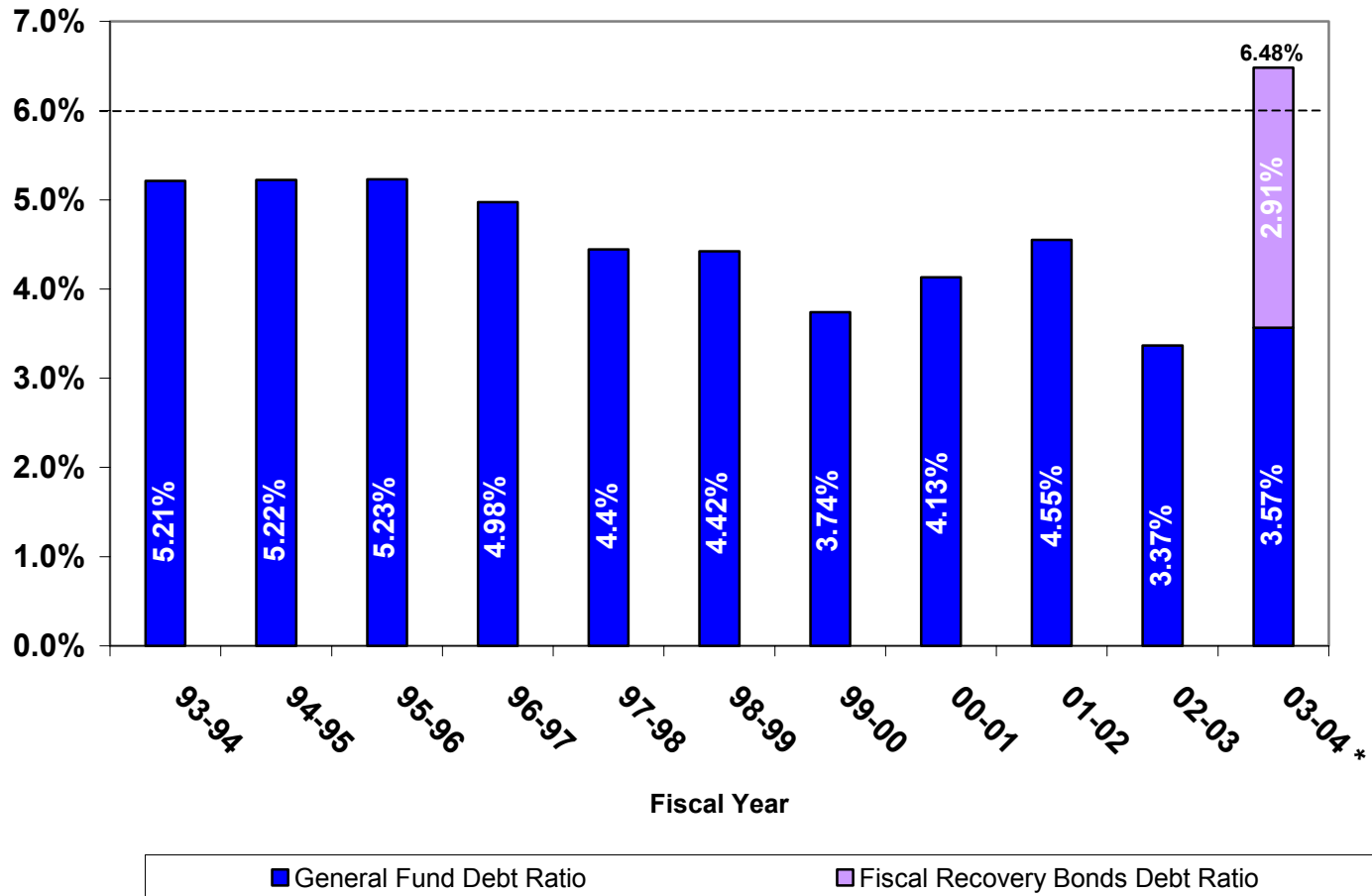
<sup>3</sup> Total spending is utilized for comparison, rather than total revenues, to avoid any distortion created by funding of reserves; \$71.1 billion figure was calculated by the Department of Finance as of enactment of the fiscal year 2003-04 budget.

## The High Cost of Deficit Borrowing

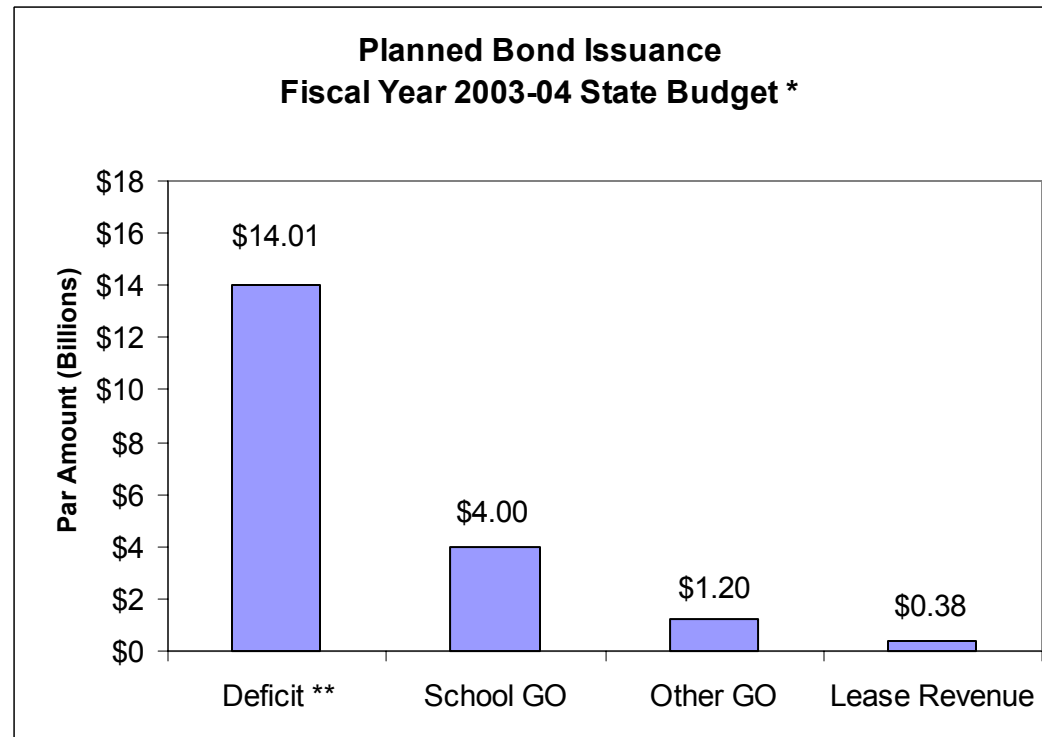
| <b>Deficit Borrowing Plan</b>                       | <b>Par Amount<br/>of Bonds<br/>(\$ Billions)</b> | <b>Debt Service Cost<br/>to Maturity<br/>(\$ Billions)</b> | <b>Debt Service Cost<br/>per Household</b> |
|-----------------------------------------------------|--------------------------------------------------|------------------------------------------------------------|--------------------------------------------|
| <b>Current Budget *</b><br>(5-year term)            | \$11.7                                           | \$12.37                                                    | \$1,076                                    |
| <b>\$20 billion Deficit Bonds</b><br>(30-year term) | \$20.0                                           | \$39.75                                                    | \$3,457                                    |
| <b>\$25 billion Deficit Bonds</b><br>(30-year term) | \$25.0                                           | \$49.69                                                    | \$4,321                                    |

\* Includes \$808 million in Pension Obligation Bonds and \$10.9 billion in Fiscal Recovery Bonds. Excludes \$2.3 billion in Tobacco Securitization Bonds recently sold.

# **State of California** **Ratio of Debt Service to General Fund Revenues**



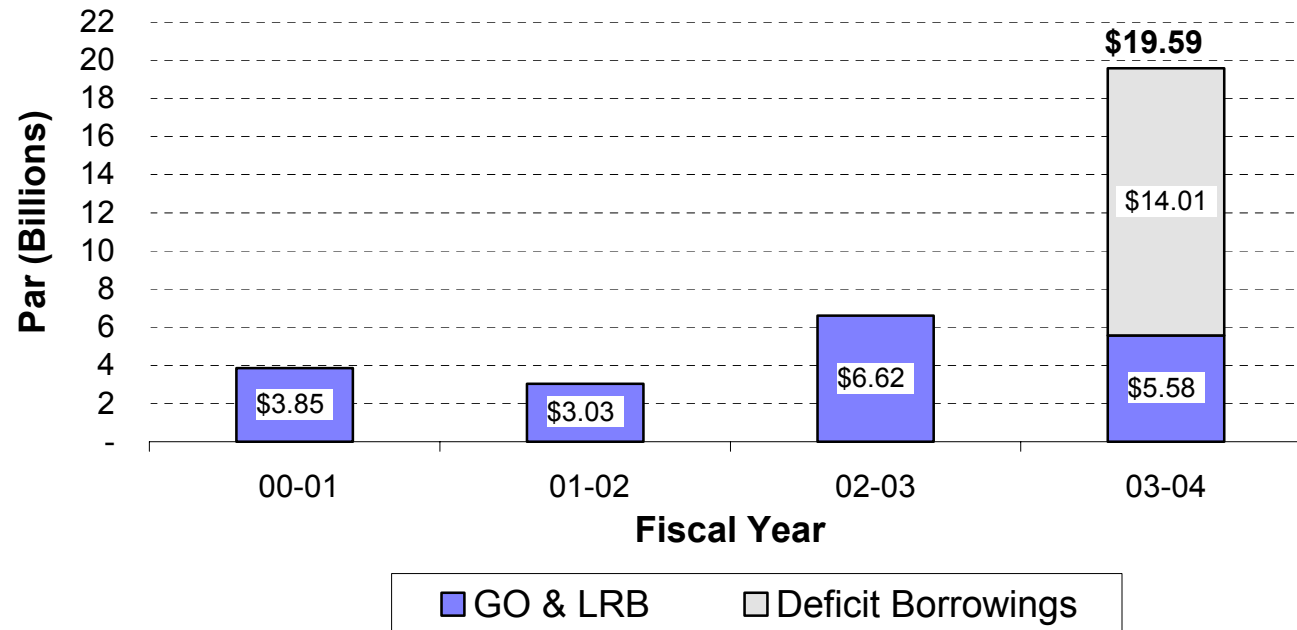
\* Debt service on Fiscal Recovery Bonds will not begin until fiscal year 2004-05. The above ratio of 2.91% has been calculated based on fiscal year 2003-04 General Fund revenues, which are the most current available figures. The bonds are payable from new state sales tax revenues deposited in the Fiscal Recovery Fund; however, the General Fund will have a commensurate obligation to local governments due to the reduction in local sales tax.



\* As enacted, except for anticipated reduction in Pension Obligation Bonds by nearly \$1.2 billion due to continuing delays in completion of validation proceedings.

\*\* Includes Tobacco Securitization Bonds, Pension Obligation Bonds, and Fiscal Recovery Bonds.

## State of California Recent and Projected Bond Issuance Levels



*\* Par amounts above are exclusive of refunding bonds*